

**LEE COUNTY
SCHOOL DISTRICT**

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES**

For the year ended June 30, 2019

Prepared by:

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the Lee County School District
Beattyville, KY
and the State Committee for School District Audits

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lee County School District as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Lee County School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lee County School District, as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and the Special Revenue Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedules of the District's Proportionate Share of the Net Pension and OPEB Liability and Schedule of Contributions for CERS and KTRS and Medical and Life and Health Insurance Plans comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lee County School District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2019, on our consideration of the Lee County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Lee County School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lee County School District's internal control over financial reporting and compliance.

White & Associates, PSC

Richmond, Kentucky
November 12, 2019

**LEE COUNTY PUBLIC SCHOOL DISTRICT – BEATTYVILLE, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2019**

As management of the Lee County School District, we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2019. Please consider the information presented here in conjunction with the district’s financial statements which follow.

FINANCIAL HIGHLIGHTS

- The beginning General Fund balance for the District July 1, 2018, was \$1,318,076. The ending General Fund balance on June 30, 2019, was \$2,082,415; a change of \$764,339. Conservative revenue projections, conservative spending and on-going monitoring and adjusting are essential in maintaining the District’s financial stability. Issues that may negatively impact the district’s finances in future years is discussed in this MD&A.
- SEEK funding is the largest stream of revenue for the school district. For fiscal year 2018, SEEK revenue was \$4,072,856. Adjusted Average Daily Attendance (AADA) is used in calculating the base SEEK funding. The AADA for 2015-2016 it was 899.93, for 2016-2017 it was 831.070, and for 2017-2018 it was 801.493 and for the 2018-2019 year it was 791.421. The Exceptional Child count increased from FY 18 to 19 while the At Risk count and Home and Hospital decreased. The net result of these differences resulted in an increase of \$34,966 in net General Fund SEEK from the previous year. The district continues to offer full-day kindergarten although it is only funded at 50% in the SEEK formula.
- Revenue for the General Fund totaled \$7,996,721 (exclusive of inter-fund transfers) which primarily consisted of the state funding program (SEEK), property, utility and motor vehicle taxes. Excluding inter-fund transfers, General Fund expenditures totaled \$7,382,535.

OVERVIEW OF ANNUAL FINANCIAL STATEMENTS

The district’s basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District’s finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District’s assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state-mandated uniform accounting system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. The proprietary funds are made up of the food service operations. The only fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary fund in the District is the food service operations. All other activities of the District are included in the governmental funds.

Notes to the Basic Financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Supplementary Information: The financial statements include notes that explain some of the information in the statements and provide more detailed data.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve, over time, as a useful indicator of a government's financial position. The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

SEE TABLE ON NEXT PAGE

Net Position for the periods ending June 30, 2018 and 2019

Table 1 Net Position

	Governmental Activities		Business-type Activities		Total School District	
	2018	2019	2018	2019	2018	2019
Assets:						
Current and Other Assets	1,987,514	2,742,501	216,519	281,296	2,204,033	3,023,797
Capital Assets	10,540,437	10,084,260	44,359	41,242	10,584,796	10,125,502
Total Assets	12,527,951	12,826,761	260,878	364,951	12,788,829	13,149,299
Deferred Outflows	1,472,820	1,186,984	65,385	43,924	1,538,205	1,230,908
Total Assets & Deferred Outflows	14,000,771	14,013,745	326,263	408,875	14,327,034	14,422,620
Liabilities:						
Current Liabilities	531,470	542,477	2,163	536	533,633	543,013
Noncurrent Liabilities	12,931,325	12,012,447	211,945	173,740	13,143,270	12,186,187
Total Liabilities	13,462,795	12,554,924	214,108	174,276	13,676,903	12,729,200
Deferred Inflows	545,431	1,051,133	25,942	31,691	571,373	1,082,824
Total Liabilities & Deferred Inflows	545,431	1,051,133	25,942	31,691	571,373	1,082,824
Invested in Capital Assets						
Net of Debt	4,240,680	4,174,184	44,359	41,242	4,285,039	4,215,426
Restricted	185,889	177,721	41,854	119,253	227,743	296,974
Unrestricted Net Position	(4,434,024)	(3,949,486)			(4,434,024)	(3,949,486)
Total Net Position	(7,455)	407,688	86,213	160,495	78,758	568,183

COMMENTS ON BUDGET COMPARISONS

- The District's General fund revenues for the fiscal year ended June 30, 2019, net of inter-fund transfers, were \$7,996,721.
- General fund budget expenditures compared to actual varied from line item to line item with the ending actual balance being \$7,382,535.

The table below reflects the operations of the governmental activities and the business-type activities of the District.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change 2018-2019
	2018	2019	2018	2019	2018	2019	
Revenues:							
Charges for services	8,611	39,649	20,225	26,199	28,236	65,848	133%
Operating grants and contributions	4,568,466	2,216,915	735,270	700,732	5,303,736	2,917,647	-45%
Capital grants and contributions	357,097	783,359	0	0	357,097	783,359	119%
General revenues	5,791,858	7,828,087	-44,792	-39,289	5,747,066	7,788,798	36%
Total revenue	10,726,032	10,868,010	710,703	687,642	11,436,735	11,555,652	1%
Expenses:							
Instruction	5,510,430	5,440,592			5,510,430	5,440,592	-1.1%
Student	592,280	623,726			592,280	623,726	5%
Instructional staff	617,979	463,679			617,979	463,679	-25%
District administration	513,670	467,630			513,670	467,630	-9%
School administration	502,699	515,046			502,699	515,046	2%
Business	401,485	478,928			401,485	478,928	19%
Plant operation & maintenance	760,240	927,071			760,240	927,071	22%
Student transportation	593,025	611,665			593,025	611,665	3%
Food Service Operations			632,762	610,243	632,762	610,243	-4%
Other instructional Community services operations	158,915	171,340			158,915	171,340	7%
Loss on retirement of assets							
Land Improvements							
Amortization	6,621	6,621			6,621	6,621	
Depreciation	466,479	531,356	3,456	3,117	469,935	534,474	13%
Debt Service							
Interest on long-term debt	193,403	215,213			193,403	215,213	11%
Extraordinary Item Transfers							
Total Expenses	10,317,226	10,452,867	636,218	613,360	10,953,444	11,066,227	1%
Change in net position	408,806	415,143	74,485	74,282	483,291	489,425	1%

Governmental Activities

The majority of revenue was derived from state and federal funding (83%) and local taxes (16%). Instruction expenses comprise 49.4% of the governmental program expenses; support services expense 23.1% and student transportation and plant operations 14.0%. The remaining expenses for community services operations, interest and other expenses account for 13.5%.

Business-Type Activities

The only business-type activity in the district is the School Food Service Program. The SFS program had total revenues of \$729,480. Of these revenues, \$26,199 was charges for services, \$700,732 was from State and Federal grants with the remaining \$2,549 from interest income. The Food Service Program receives no support from tax revenues. The District's program operates successfully under the Community Eligibility Provision

which allows schools and local educational agencies with high poverty rates to provide free breakfast and lunch to all students.

General Fund Budget

The district’s budget is prepared according to Kentucky law and accounts for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant fund budgeted is the General Fund. The budget is prepared as a zero-based budget as required by the Kentucky Department of Education with a minimum of a 2% contingency expense.

Capital Assets

The District ended the fiscal year 2019 with \$10,167,915 in net assets, of which, \$10,084,260 was in governmental activities. These capital assets include land, buildings, buses, computers and other equipment. This number increased from last year primarily in the categories of Buildings & Improvements and Vehicles. All but a small fraction of this was in governmental activities.

Capital Assets at Year-End FY2019
(Net of depreciation)

	Governmental Activities		Business Type Activities		Totals	
	2018	2019	2018	2019	2018	2019
Land	157,410	157,410			157,410	157,410
Land and Improvements	54,626	45,525			54,626	45,525
Buildings & Improvements	9,364,307	8,987,311	-	-	9,364,307	8,987,311
Technology Equipment	452,829	424,424	(4,715)	(4,715)	448,114	419,709
Vehicles	432,061	383,981			432,061	383,981
General Equipment	79,203	73,895	49,073	45,956	128,276	128,276
Construction In Progress	-	11,742			-	11,742

THE DISTRICT’S FUNDS

The General Fund ended the fiscal year with a fund balance of \$2,082,415, an increase of \$764,339 from last year’s fund balance.

A portion of the General Fund balance is reserved for prior year encumbrances, site-based council allocations carried forward from the prior year and sick leave payable. The unreserved portion of the fund balance at the end of fiscal year 2019 is \$2,078,259 compared to \$1,294,121 the preceding year.

REVENUE	Fund	Fund	Fund	Fund	Fund	Fund	Fund
	1	2	310	320	360	400	51
Local Revenue Sources	1,785,095	52,114		147,172			29,174
State Revenue Sources	6,049,278	561,725	82,008	194,801		98,273	53,037
Federal Revenue Sources	162,350	1,655,191					647,695
Other	42,714						
Transfers	124,272	16,833			53,817	408,277	
TOTALS	8,163,709	2,285,863	82,008	341,973	53,817	506,550	729,906
EXPENDITURES	Fund	Fund	Fund	Fund	Fund	Fund	Fund
	1	2	310	320	360	400	51
Instruction	3,632,979	1,593,256					
Student Support Services	544,656	79,070					
Instructional Staff Support Services	263,617	200,062					
District Admin Support	467,630						
School Admin Support	487,474	27,572					
Business Support Services	418,388	60,540					
Plant Operation & Management	836,032	91,037					
Student Transportation	614,349	23,000					
Food Service Operations							610,242
Community Services	29,894	141,448					
Debt Service	87,518					506,550	
Building Improvement					11,742		
Other Items							
Transfers	16,833	69,878	131,166	342,558			42,264
TOTALS	7,399,370	2,285,863	131,166	342,558	11,742	506,550	652,506
Excess / (Deficit)	764,339	-	49,658	585	42,075	-	77,400

DEBT

At June 30, 2019, the District had \$6,131,373 in outstanding bonds. A total of \$427,969 is due within one year.

Outstanding Debt at Year-End

	Government Activities	
	2018	2019
Capital Lease Obligations	\$ 231,865	\$ 190,171
General Obligation Bonds	6,067,892	5,719,905
KSBIT	<u>254,843</u>	<u>221,297</u>
Total Obligations	<u>\$ 6,554,600</u>	<u>\$ 6,131,373</u>

FUTURE BUDGETARY IMPLICATIONS

By law, the district's budget must have a minimum 2.0% contingency. The District adopted a working budget for 2019-2020 with a 6.68% contingency.

Issues which are anticipated to impact future budgets include:

- The state pension crisis in Kentucky has the potential to critically impact future budgets in a negative manner. Cost-sharing proposals could substantially increase the board's contribution to retirement plans.
- The continuing trend of decreasing student enrollment and AADA will challenge the district's ability to continue to maintain programs at current levels in the future. The AADA used for the SEEK base calculation for 2017-2018 was 791.421, a drop of 10.072 from the prior year and immediately following a 18.78 drop from the previous year.
- The district was utilizing several grants to pay personnel. Several of these grants were in the last year of use in the 2018-2019 school year. Several personnel were moved back into the general fund, which will significantly increase general fund expenditures in the upcoming years.

Questions regarding this report should be directed to the Finance Officer, Tina Lucas or Superintendent, Sarah Wasson, at (606) 464-5000 or by mail at Lee County Board of Education, P.O. Box 668, Beattyville, Kentucky 41311.

Lee County School District
Statement of Net Position
June 30, 2019

	Primary Government		
	Governmental Activities	Business- type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,368,993	\$ 244,062	\$ 2,613,055
Receivables			
Taxes-current	57,711		57,711
Taxes-delinquent	5,993		5,993
Accounts	20,085	3,427	23,512
Intergovernmental-state	1,019		1,019
Intergovernmental-federal	288,700		288,700
Inventories		33,807	33,807
Capital assets:			
Land and construction in progress	169,152		169,152
Other capital assets, net of depreciation	9,915,108	41,242	9,956,350
Total capital assets	<u>10,084,260</u>	<u>41,242</u>	<u>10,125,502</u>
Total assets	<u>12,826,761</u>	<u>322,538</u>	<u>13,149,299</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	779,928	34,904	814,832
Deferred outflows related to OPEB	341,856	9,020	350,876
Deferred savings from refunding bonds	65,200		65,200
Total deferred outflows of resources	<u>1,186,984</u>	<u>43,924</u>	<u>1,230,908</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>14,013,745</u>	<u>366,462</u>	<u>14,380,207</u>
LIABILITIES			
Accounts payable and accrued expenses	76,304	536	76,840
Accrued interest payable	65,381		65,381
Accrued salaries & benefit payable	67,041		67,041
Unearned revenue	333,751		333,751
Long-term liabilities:			
Due within 1 year:			
Bond obligations	352,000		352,000
Capital lease obligations	41,694		41,694
KSBIT payable	34,275		34,275
Total due within 1 year	<u>427,969</u>	<u>536</u>	<u>427,969</u>
Due in more than 1 year:			
Bond obligations	5,369,879		5,369,879
Capital lease obligations	148,477		148,477
KSBIT payable	187,022		187,022
Net pension liability	3,005,881	134,524	3,140,405
Net OPEB liability	2,666,257	39,216	2,705,473
Sick leave	208,936		208,936
Total due in more than 1 year	<u>11,586,452</u>	<u>173,740</u>	<u>11,760,192</u>
Total liabilities	<u>12,556,898</u>	<u>174,276</u>	<u>12,731,174</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	469,486	21,011	490,497
Deferred inflows related to OPEB	581,647	10,680	592,327
Total deferred inflows of resources	<u>1,051,133</u>	<u>31,691</u>	<u>1,082,824</u>
NET POSITION			
Net Investment in capital assets	4,172,210	41,242	4,213,452
Restricted for:			
Capital projects	177,721		177,721
District activities	5,269		5,269
Food Services		119,253	119,253
Unrestricted (deficit)	(3,949,486)		(3,949,486)
Total net position	<u>405,714</u>	<u>160,495</u>	<u>566,209</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 14,013,745</u>	<u>\$ 366,462</u>	<u>\$ 14,380,207</u>

See the accompanying notes to the financial statements.

Lee County School District
Statement of Activities
Year Ended June 30, 2019

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
Instruction	\$ 5,440,592	\$ -	\$ 1,313,619	\$ -	\$ (4,126,973)		\$ (4,126,973)
Support services							
Student	623,726	3,457	132,284		(487,985)		(487,985)
Instructional staff	463,679		98,340		(365,339)		(365,339)
District administration	467,630		99,178		(368,452)		(368,452)
School administration	515,046		109,234		(405,812)		(405,812)
Business	478,928		101,574		(377,354)		(377,354)
Plant operation & maintenance	927,071	36,192	196,620	276,809	(417,450)		(417,450)
Student transportation	611,665		129,726		(481,939)		(481,939)
Community services operations	171,340		36,339		(135,001)		(135,001)
Amortization	6,621				(6,621)		(6,621)
Depreciation*	531,356				(531,356)		(531,356)
Interest on long-term debt	217,187			506,550	289,363		289,363
Total governmental activities	<u>10,454,841</u>	<u>39,649</u>	<u>2,216,915</u>	<u>783,359</u>	<u>(7,414,918)</u>		<u>(7,414,918)</u>
Business-type activities:							
Food service operations	610,243	26,199	700,732			\$ 116,688	116,688
Depreciation	3,117					(3,117)	(3,117)
Total business-type activities	<u>613,360</u>	<u>26,199</u>	<u>700,732</u>	<u>-</u>	<u>-</u>	<u>113,571</u>	<u>113,571</u>
Total primary government	<u>\$ 11,068,201</u>	<u>\$ 65,848</u>	<u>\$ 2,917,647</u>	<u>\$ 783,359</u>	<u>(7,414,918)</u>	<u>113,571</u>	<u>(7,301,347)</u>
General revenues:							
Taxes:							
Property taxes					1,266,985		1,266,985
Oil taxes					64,012		64,012
Motor vehicle taxes					188,191		188,191
Utility taxes					332,133		332,133
Revenue in lieu of taxes					7,370		7,370
State and formula grants					5,803,350		5,803,350
Unrestricted investment earnings					27,341	2,547	29,888
Other local					96,441	428	96,869
Transfers					42,264	(42,264)	-
Total general revenues and transfers					<u>7,828,087</u>	<u>(39,289)</u>	<u>7,788,798</u>
Change in net position					413,169	74,282	487,451
Net Position - beginning					(7,455)	86,213	78,758
Net Position - ending					<u>\$ 405,714</u>	<u>\$ 160,495</u>	<u>\$ 566,209</u>

*Unallocated depreciation that excludes depreciation which is included in the direct expenses of various programs, if any.

See the accompanying notes to the financial statements.

Lee County School District
Balance Sheet
Governmental Funds
June 30, 2019

	Governmental Funds				
	General	Special Revenue	Debt Service	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 2,143,135	\$ 42,868	\$ -	\$ 182,990	\$ 2,368,993
Receivables					
Taxes-current	57,711				57,711
Taxes-delinquent	5,993				5,993
Accounts	17,739	2,346			20,085
Intergovernmental-state		1,019			1,019
Intergovernmental-federal		288,700			288,700
Total assets	2,224,578	334,933	-	182,990	2,742,501
LIABILITIES					
Accounts payable	75,122	1,182			76,304
Accrued salaries & benefits payable	18,753				18,753
Payroll taxes payable	48,288				48,288
Unearned revenue		333,751			333,751
Total liabilities	142,163	334,933	-	-	477,096
FUND BALANCE					
Restricted				182,990	182,990
Assigned	4,156				4,156
Unassigned	2,078,259				2,078,259
Total fund balance	2,082,415	-	-	182,990	2,265,405
TOTAL LIABILITIES AND FUND BALANCE	\$ 2,224,578	\$ 334,933	\$ -	\$ 182,990	\$ 2,742,501

See the accompanying notes to the financial statements.

Lee County School District
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position
June 30, 2019

Fund balances-total governmental funds	\$	2,265,405
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.		10,084,260
Costs associated with bond issues and refundings are expensed in the fund financial statements because they are a use of current financial resources but are capitalized on the statement of net position using the economic resources focus		65,200
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, accrued interest payable, other accounts payable, and net pension obligations) are not due and payable in the current period and, therefore, are not reported in the funds		
Accrued interest payable		(65,381)
Bonds payable		(5,721,879)
Capital lease payable		(190,171)
KSBIT payable		(221,297)
Sick leave liability		(208,936)
Net OPEB liability		(2,666,257)
Net pension liability		(3,005,881)
Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds		
Deferred outflows related to pensions		779,928
Deferred outflows related to OPEB		341,856
Deferred inflows related to pensions		(469,486)
Deferred inflows related to OPEB		(581,647)
		(581,647)
Net position of governmental activities	\$	405,714

See the accompanying notes to the financial statements.

Lee County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2019

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
From Local Sources					
Taxes					
Property	\$ 1,119,813	\$ -	\$ -	\$ 147,172	\$ 1,266,985
Oil	64,012				64,012
Motor vehicle	188,191				188,191
Utilities	332,133				332,133
Revenue in lieu of taxes	7,370				7,370
Student Activities		1,907		1,550	3,457
Other local revenue	48,325	48,116			96,441
Earnings on investments	25,250	2,091			27,341
Intergovernmental - state	6,049,278	561,725	98,273	276,809	6,986,085
Intergovernmental - federal	162,349	1,655,190			1,817,539
Total revenues	<u>7,996,721</u>	<u>2,269,029</u>	<u>98,273</u>	<u>425,531</u>	<u>10,789,554</u>
EXPENDITURES					
Instruction	3,632,976	1,593,256		2,916	5,229,148
Support services					
Student	544,656	79,070			623,726
Instructional staff	263,617	200,062			463,679
District administration	467,630				467,630
School administration	487,474	27,572			515,046
Business	418,388	60,540			478,928
Plant operation & maintenance	836,032	91,038			927,070
Student transportation	614,349	23,000			637,349
Community services operations	29,894	141,446			171,340
Building improvements				11,742	11,742
Debt service	87,519		506,550		594,069
Total expenditures	<u>7,382,535</u>	<u>2,215,984</u>	<u>506,550</u>	<u>14,658</u>	<u>10,119,727</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	614,186	53,045	(408,277)	410,873	669,827
OTHER FINANCING SOURCES (USES)					
Sale of equipment	42,714				42,714
Operating transfers in	124,272	16,833	408,277		549,382
Operating transfers (out)	(16,833)	(69,878)		(420,407)	(507,118)
Total other financing sources and (uses)	<u>150,153</u>	<u>(53,045)</u>	<u>408,277</u>	<u>(420,407)</u>	<u>84,978</u>
NET CHANGE IN FUND BALANCE	764,339	-	-	(9,534)	754,805
FUND BALANCE-BEGINNING	<u>1,318,076</u>	<u>-</u>	<u>-</u>	<u>192,524</u>	<u>1,510,600</u>
FUND BALANCE-ENDING	<u>\$ 2,082,415</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 182,990</u>	<u>\$ 2,265,405</u>

See the accompanying notes to the financial statements.

Lee County School District
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
 Governmental Funds to the Statement of Activities**
 Year ended June 30, 2019

Net change in fund balances-total governmental funds	\$	754,805
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report district pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.</p>		
District pension contributions less costs of benefits earned net employee contributions		(123,376)
<p>Governmental funds report district OPEB contributions as expenditures. However in the Statement of Activities, the cost of OPEB benefits earned net of employee contributions is reported as pension expense.</p>		
District OPEB contributions less costs of benefits earned net employee contributions		(102,922)
<p>Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.</p>		
		(456,178)
<p>The difference in the issue amount of the refunding of bond proceeds and the amount for payment to the escrow account to pay the refunded bonds is amortized over the life of the refunding issue.</p>		
		(6,621)
<p>Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.</p>		
		388,694
<p>Bond discount/premium are a other financing use/expenditure in the fund financial statements, but are a netted against the bond liability and amortized over the life of the bond in the government wide financial statements.</p>		
		(987)
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
Accrued interest payable		(10,825)
KSBIT payable		33,546
Noncurrent sick leave payable		(62,967)
		(40,246)
Change in net position of governmental activities	\$	413,169

See the accompanying notes to the financial statements.

Lee County School District
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
Year Ended June 30, 2019

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES				
From Local Sources				
Taxes				
Property	\$ 639,510	\$ 639,510	\$ 1,119,813	\$ 480,303
Oil	20,000	20,000	64,012	44,012
Motor vehicle	170,000	170,000	188,191	18,191
Utilities	320,000	320,000	332,133	12,133
Revenue in lieu of taxes	1,000	1,000	7,370	6,370
Other local revenue	2,400	2,400	48,325	45,925
Earnings on investments	5,000	5,000	25,250	20,250
Intergovernmental - state	4,959,168	4,959,168	6,049,278	1,090,110
Intergovernmental - federal	84,994	84,994	162,349	77,355
Total revenues	<u>6,202,072</u>	<u>6,202,072</u>	<u>7,996,721</u>	<u>1,794,649</u>
EXPENDITURES				
Instruction	2,948,555	3,007,655	3,632,976	(625,321)
Support services				
Student	501,078	505,078	544,656	(39,578)
Instructional staff	251,949	261,499	263,617	(2,118)
District administration	590,128	590,128	467,630	122,498
School administration	454,957	502,179	487,474	14,705
Business	358,692	358,692	418,388	(59,696)
Plant operation & maintenance	877,933	881,108	836,032	45,076
Student transportation	701,908	701,908	614,349	87,559
Debt service	87,519	87,519	87,519	-
Community services operations	7,500	7,500	29,894	(22,394)
Total expenditures	<u>6,780,219</u>	<u>6,903,266</u>	<u>7,382,535</u>	<u>(479,269)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(578,147)	(701,194)	614,186	1,315,380
OTHER FINANCING SOURCES (USES)				
Sale of equipment			42,714	42,714
Operating transfers in	110,766	110,766	124,272	13,506
Operating transfers (out)	(18,000)	(18,000)	(16,833)	1,167
Total other financing sources and (uses)	<u>92,766</u>	<u>92,766</u>	<u>150,153</u>	<u>57,387</u>
NET CHANGE IN FUND BALANCE	(485,381)	(608,428)	764,339	1,372,767
FUND BALANCE-BEGINNING	<u>1,270,900</u>	<u>1,270,900</u>	<u>1,318,076</u>	<u>47,176</u>
FUND BALANCE-ENDING	<u>\$ 785,519</u>	<u>\$ 662,472</u>	<u>\$ 2,082,415</u>	<u>\$ 1,419,943</u>

See the accompanying notes to the financial statements.

Lee County School District
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Special Revenue Fund
Year Ended June 30, 2019

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES				
From Local Sources				
Other local revenue	\$ 4,000	\$ 7,400	\$ 48,116	\$ 40,716
Student activities			1,907	1,907
Earnings on investments			2,091	2,091
Intergovernmental - state	453,757	455,708	561,725	106,017
Intergovernmental - federal	1,258,210	1,272,240	1,655,190	382,950
Total revenues	<u>1,715,967</u>	<u>1,735,348</u>	<u>2,269,029</u>	<u>533,681</u>
EXPENDITURES				
Instruction	1,283,353	1,315,381	1,593,256	(277,875)
Support Services				
Student	69,390	76,890	79,070	(2,180)
Instructional Staff	138,523	109,023	200,062	(91,039)
School Administration			27,572	(27,572)
Business	36,000	36,000	60,540	(24,540)
Plant Operations & Maintenance	10,000	15,000	91,038	(76,038)
Student Transportation			23,000	(23,000)
Community Services Operations	126,823	128,774	141,446	(12,672)
Total expenditures	<u>1,664,089</u>	<u>1,681,068</u>	<u>2,215,984</u>	<u>(534,916)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	51,878	54,280	53,045	(1,235)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	118,172	47,391	16,833	(30,558)
Operating transfers out	(170,050)	(69,878)	(69,878)	-
Total other financing sources and (uses)	<u>(51,878)</u>	<u>(22,487)</u>	<u>(53,045)</u>	<u>(30,558)</u>
NET CHANGE IN FUND BALANCE	-	31,793	-	(31,793)
FUND BALANCE-BEGINNING	-	-	-	-
FUND BALANCE-ENDING	<u>\$ -</u>	<u>\$ 31,793</u>	<u>\$ -</u>	<u>\$ (31,793)</u>

See the accompanying notes to the financial statements.

Lee County School District
Statement of Net Position
Proprietary Fund
June 30, 2019

	School Food Services
ASSETS	
Cash and cash equivalents	\$ 244,062
Receivables	3,427
Inventories	33,807
Capital assets:	
Other capital assets, net of depreciation	41,242
Total assets	322,538
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	34,904
Deferred outflows related to OPEB	9,020
Total deferred outflows of resources	43,924
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	366,462
LIABILITIES	
Accounts payable	536
Net pension liability	134,524
Net OPEB liability	39,216
Total liabilities	174,276
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pension	21,011
Deferred inflows related to OPEB	10,680
Total deferred inflows of resources	31,691
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	205,967
NET POSITION	
Net investment in capital assets	41,242
Restricted	119,253
Total net position	160,495
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 366,462

See the accompanying notes to the financial statements.

Lee County School District
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
Year Ended June 30, 2019

		<u>School Food Services</u>
OPERATING REVENUES		
Lunchroom sales	\$	26,199
Other local revenue		428
Total operating revenues		<u>26,627</u>
OPERATING EXPENSES		
Depreciation		3,118
Food service operations		
Salaries and benefits		254,986
Operational		355,256
Total operating expenses		<u>613,360</u>
Operating income (loss)		(586,733)
NONOPERATING REVENUES (EXPENSES)		
Federal grants		647,695
State grants		53,037
Transfers		(42,264)
Earnings from investments		2,547
Total nonoperating revenues (expenses)		<u>661,015</u>
CHANGE IN NET POSITION		74,282
NET POSITION-BEGINNING		<u>86,213</u>
NET POSITION-ENDING	\$	<u><u>160,495</u></u>

See the accompanying notes to the financial statements.

Lee County School District
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2019

	<u>School Food Services</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 26,627
Payments to suppliers	(368,716)
Payments to employees	(254,987)
Net cash provided (used) by operating activities	<u>(597,076)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer for indirect cost for administrative costs	(42,264)
Operating grants and contributions	700,732
Net cash provided (used) by noncapital financing activities	<u>658,468</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	2,546
Net cash provided (used) by investing activities	<u>2,546</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	63,938
CASH AND CASH EQUIVALENTS-BEGINNING	<u>180,124</u>
CASH AND CASH EQUIVALENTS-ENDING	<u>\$ 244,062</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (586,733)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	3,118
Changes in assets and liabilities:	
Receivables	2,017
Deferrals	21,461
Deferrals	5,749
Net pension liability	(23,237)
Net OPEB liability	(14,968)
Payables	(1,627)
Inventories	(2,856)
Net cash provided (used) by operating activities	<u>\$ (597,076)</u>

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the district received \$42,497 of food commodities from the U.S. Department of Agriculture.

During the year, the district recognized revenues and expenses for on-behalf payments relating to fringe benefits in the amount of \$47,414 provided by state government.

See the accompanying notes to the financial statements.

Lee County School District
Statement of Fiduciary Net Position
Fiduciary Fund
June 30, 2019

	<u>School Activity Funds</u>
ASSETS	
Cash and cash equivalents	\$ 128,061
Certificate of deposit	<u>10,000</u>
Total Assets	<u><u>138,061</u></u>
LIABILITIES	
Accounts payable	2,436
Due to student groups	<u>135,625</u>
Total Liabilities	<u><u>\$ 138,061</u></u>

See the accompanying notes to the financial statements.

LEE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Lee County Board of Education (“Board”), a five-member group, is the level of government, which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Lee County Board of Education (“District”). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100-Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to develop policies, which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds relevant to the operation of the Lee County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Blended Component Unit

Lee County Board Of Education Finance Corporation

The Board authorized establishment of the Lee County Board Of Education Finance Corporation a non-stock, non-profit corporation pursuant to Section 162.385 of the School Bond Act and Chapter 273 and Section 58.180 of the Kentucky Revised Statutes (the “Corporation”) to act as an agency of the District for financing the costs of school building facilities. The Board of Directors of the Corporation shall be the same persons who are at any time the members of the Board of Education of the Lee County Board of Education.

Basis of Presentation

Government-wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segments or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

(A) General Fund

The General Fund is the main operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is always a major fund of the District.

(B) Special Revenue (Grant) Fund

The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than expendable trust funds or major capital projects) that is legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District by request of the Kentucky Department of Education.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(C) District Activity Fund

The District Activity Fund is a Special Revenue type and is used to account for funds collected at individual schools for operation costs of the schools or school district that allows for more flexibility in the expenditures of those funds.

(D) Capital Project Funds

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).

SEEK Capital Outlay Fund

The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects as identified in the District's facility plan.

Building (FSPK) Fund

The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy that is required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.

Construction Fund

The Construction Fund accounts for proceeds from sale of bonds and other revenues to be used for authorized construction and/or remodeling.

(E) Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a major fund of the District.

II. Proprietary Funds (Enterprise Funds)

Food Service Fund

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund of the district.

The District applies all GASB pronouncements to proprietary funds.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

III. Fiduciary Fund Types

Agency Funds

The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with “Accounting Procedures for Kentucky School Activity Funds.”

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis, on a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Unearned Revenue – Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement the revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as unearned revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

Inventory consists of food purchased by the District and commodities granted by the United States Department of Agriculture (USDA). The commodities are recognized as revenues and expenditures by the Food Service Fund when consumed. Any material commodities on hand at year end are recorded as inventory. All purchased inventory items are valued at the lower of cost or market (first-in, first-out) using the consumption method and commodities assigned values are based on information provided by the USDA.

Prepaid Assets

Payments made that will benefit periods beyond the fiscal period are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and expenditure/expense is reported in the year in which services are consumed.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the government funds. These assets are reported in the government activities column of the government-wide financial statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

Land and construction in progress are not depreciated. The other property, plant and equipment of the district are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Other	10 year

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Accrued Liabilities and Long-Term Obligations

All payables accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgment, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension and OPEB contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of the accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

Fund Balances

Fund balance is divided into five categories as defined by GASB 54 as follows:

Nonspendable:	Permanently nonspendable by decree of the donor, such as an endowment, or funds that are not in a spendable form, such as prepaid expenses or inventory on hand.
Restricted	Legally restricted under legislation, bond authority, or grantor contract.
Committed	Commitments of future funds for specific purposes passed by the Board.
Assigned	Funds that are intended by management to be used for a specific purpose, including encumbrances.
Unassigned	Funds available for any purpose; unassigned amounts are reported only in the General Fund unless a fund has a deficit.

The Board has adopted a GASB 54 spending policy which states that the spending order of funds is to first use restricted funds, committed, and assigned resources first, then unassigned resources as they are needed.

Net Position

The statement of net position presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net position.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Net position are reported in three categories: 1) invested in capital assets net of related debt – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of the assets; 2) restricted net position – resulting from constraints placed on net position by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation adopted by the School District; 3) unrestricted net position – those assets that do not meet the definition of restricted net position or invested in capital assets. It is the District’s policy to first apply restricted net position and then unrestricted net position when an expense is incurred for which both restricted and unrestricted net position are available.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. The property tax rates assessed for the year ended June 30, 2019, to finance the General Fund operations were \$.477 per \$100 valuation of real property, \$.477 per \$100 valuation for business personal property and \$.523 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

Operating and Non-Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Non-operating revenues are not generated directly from the primary activity of the proprietary funds. For the School District those revenues come in the form of grants (federal and state), donated commodities, and earnings from investments.

In-Kind

Local contributions, which include contributed services provided by individuals, private organizations and local governments, are used to match federal and state administered funding on various grants. The amounts of such services and donated commodities are recorded in the accompanying financial statements at their estimated fair market values.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Receivables/Payables

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables”. These amounts are eliminated in the governmental and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

business-type activities columns of the statements of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Interfund Transfers

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position includes a section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until the appropriate period. The District reports three types of deferred outflows – contributions to the CERS's pension and OPEB plans after the measurement period and the unrecognized portion of a deferred loss on the refinancing of long-term debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until the appropriate period. The District reports two types of deferred inflows related to the net difference projected and actual earnings on pension and OPEB plan investments.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous ("CERS") and Teachers Retirement System of the State of Kentucky ("KTRS") and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Postemployment Benefits Other Than OPEBs (OPEB)

For purposes of measuring the liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Teachers' Retirement System of the State of Kentucky (TRS), and the County Retirement System of Kentucky (CERS), and additions to/deductions from TRS's/CERS's fiduciary net position have been determined on the same basis as they are reported by TRS/CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Bond and Related Premiums, Discounts, and Issuance Costs

In the government-wide financial statements and in the proprietary fund financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when bonds are issued.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Estimates

The process of preparing financial statements in conformity accounting principles generally accepted in the United States of America requires District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenditures, designated fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Budgetary Process

The District prepares its budgets on the modified accrual basis of accounting, which is the same basis as used to prepare the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy, all amendments require Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law. Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end. The Kentucky Department of Education does not require the Capital Project Funds and Debt Service Funds to prepare budgets.

General Fund and Special Revenue Fund Expenditures exceeded budgeted appropriations by \$479,269 and \$534,916, respectively.

New Pronouncements

GASB issued Statement No. 83, *Certain Asset retirement Obligations*, effective for the District's fiscal year ending June 30, 2019.

GASB issued Statement No. 88, *Certain Disclosures Related to Debt*, including Direct Borrowings and Direct Placements, effective for the District's fiscal year ending June 30, 2019.

The adoption of GASB Statement Numbers 83 and 88 did not have an impact on the District's financial position or results of operations.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The District will adopt the following new accounting pronouncements in future years:

GASB issued Statement No. 84, *Fiduciary Activities*, effective for the District's fiscal year ending June 30, 2020.

GASB issued Statement No. 87, *Leases*, effective for the District's fiscal year ending June 30, 2021.

GASB issued Statement No. 89, *Accounting for Interest Costs Incurred before the End of a Construction Period*, effective for the District's fiscal year ending June 30, 2021.

GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, effective for the District's fiscal year ending June 30, 2020.

The impact of these pronouncements on the District's financial statement has not been determined.

NOTE B – CASH AND CASH EQUIVALENTS AND CERTIFICATES OF DEPOSIT

The Kentucky Revised Statutes authorize the District to invest money subject to its control in obligations of the United States; bonds or certificates of indebtedness of Kentucky and its agencies and instrumentalities; savings and loan associations insured by an agency of the United States up to the amount insured; and national or state banks chartered in Kentucky and insured by an agency of the United States providing such banks pledge as security obligations, as permitted by KRS 41.240(4), having a current quoted market value at least equal to uninsured deposits.

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

At year end the District's bank balances and certificates of deposit were fully collateralized by securities held by the pledging bank's trust department in the District's name and FDIC insurance. At year end, the carrying amount of the District's cash and cash equivalents and certificates of deposit was \$2,761,115. The bank balance for the same time was \$3,148,399.

The School Activity Fund has a \$10,000 non-negotiable certificate of deposit at June 30, 2019. Non-negotiable certificate of deposits are stated at cost which approximates fair value.

Due to the nature of the accounts and certain limitations imposed on the use of funds, each bank account within the following funds is considered to be restricted: SEEK Capital Outlay Fund, Facility Support Program (FSPK/Building) Fund, special Revenue (Grant Fund), Debt Service Fund, School Construction Fund, School Food Service Fund, and School Activity Fund.

NOTE C – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2019, was as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Governmental Activities</u>	<u>July 1, 2018</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2019</u>
Land	\$ 157,410	\$ -	\$ -	\$ 157,410
Land improvements	513,770	-	-	513,770
Buildings	18,651,631	-	-	18,651,631
Technology equipment	2,236,500	44,275	256,110	2,024,665
Vehicles	1,707,725	25,684	113,003	1,620,406
General equipment	400,337	-	6,351	393,986
Construction in progress	-	11,742	-	11,742
Total at historical cost	\$ <u>23,667,373</u>	\$ <u>81,701</u>	\$ <u>375,464</u>	\$ <u>23,373,610</u>
Less: Accumulated depreciation				
Land improvements	459,144	9,101	-	468,245
Buildings	9,287,324	376,996	-	9,664,320
Technology equipment	1,783,672	66,158	249,589	1,600,240.83
Vehicles	1,275,664	73,793	113,003	1,236,455
General equipment	321,133	5,308	6,351	320,091
Total accumulated depreciation	\$ <u>13,126,937</u>	\$ <u>531,356</u>	\$ <u>368,942</u>	\$ <u>13,289,351</u>
Governmental Activities Capital Assets-net	\$ <u>10,540,437</u>	\$ <u>(449,655)</u>	\$ <u>6,522</u>	\$ <u>10,084,260</u>
<u>Business-Type Activities</u>	<u>July 1, 2018</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2019</u>
Technology equipment	\$ 16,503	\$ -	\$ -	\$ 16,503
General equipment	408,641	-	-	408,641
Total at historical cost	\$ <u>425,144</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>425,144</u>
Less: Accumulated depreciation				
Technology equipment	\$ 21,217	\$ -	\$ -	\$ 21,217
General equipment	359,568	3,117	-	362,685
Total accumulated depreciation	\$ <u>380,785</u>	\$ <u>3,117</u>	\$ <u>-</u>	\$ <u>383,902</u>
Business-Type Activities Capital Assets-net	\$ <u>44,359</u>	\$ <u>(3,117)</u>	\$ <u>-</u>	\$ <u>41,242</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as “unallocated”.

NOTE D – DEBT OBLIGATIONS

Bonds

The amount shown in the accompanying financial statements as bonded debt and lease obligations represent the District’s future obligations to make payments relating to the bonds issued by the Lee County School District Finance Corporation.

The District, through the General Fund (including utility taxes), Building (FSPK) Fund, and the SEEK Capital Outlay Fund is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Fiscal Court to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The original amount of outstanding issues, the issue dates, interest rates, maturity dates, and outstanding balances, at June 30, 2019 are summarized below:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Bond Issue	Original Amount	Maturity Date	Interest Rates	2018			2019
				Outstanding Balance	Additions	Retirements	Outstanding Balance
Issue of 2013R	1,460,000	4/1/2023	.5-2.0%	745,000	-	145,000	600,000
Issue of 2015 QZAB	500,000	2/1/2030	.35%	466,000	-	12,000	454,000
Issue of 2010	1,200,000	8/1/2030	1.5-4%	1,010,000	-	25,000	985,000
Issue of 2015	2,350,000	2/1/2035	2.0-3.5%	2,260,000	-	35,000	2,225,000
Issue of 2016R	1,835,000	8/1/2028	2%	1,615,000	-	130,000	1,485,000
				<u>\$ 6,096,000</u>	<u>\$ -</u>	<u>\$ 347,000</u>	<u>\$ 5,749,000</u>
Add:	Premium			27,115	-	3,273	23,842
Less:	Discount			(55,223)	-	(4,260)	(50,963)
Totals				<u>\$ 6,067,892</u>	<u>\$ -</u>	<u>\$ 346,013</u>	<u>\$ 5,721,879</u>

The table following sets forth the amount to be paid by the District for each year until maturity of all bond issues.

The bonds may be called prior to maturity at dates and redemption premiums specified in each issue. Assuming no issues are called prior to maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2019 for debt service, (principal and interest) are as follows:

Fiscal Year Ended	Principal		Interest		Principal Total	Interest Total
	Local	KSFCC	Local	KSFCC		
	30-Jun					
2020	285,145	66,855	121,064	31,419	352,000	152,483
2021	293,441	68,559	115,464	29,714	362,000	145,178
2022	297,589	70,411	109,699	27,862	368,000	137,561
2023	301,683	72,317	103,891	25,956	374,000	129,847
2024	304,718	74,282	96,894	23,992	379,000	120,886
2025-2029	1,611,074	386,926	384,420	85,412	1,998,000	469,832
2030-2034	1,358,573	242,427	182,002	28,042	1,601,000	210,044
2035	276,166	38,834	9,666	1,359	315,000	11,025
	<u>\$ 4,728,389</u>	<u>\$ 1,020,611</u>	<u>\$ 1,123,100</u>	<u>\$ 253,755</u>	<u>\$ 5,749,000</u>	<u>\$ 1,376,855</u>

KSBIT

The District elected to finance the worker’s compensation insurance deficit (KSBIT) with the now defunct Kentucky School Board Insurance Trust through the Kentucky Inter-local School Transportation Association (KISTA). The activity during fiscal year 2019 for the worker’s compensation and property and liability deficit are as follows:

KISTA Issues	Original Amount	Maturity Date	Interest Rates	2018 KISTA			2019 KISTA
				Outstanding	Additions	Retirements	Outstanding
KSBIT	\$ 346,989	8/1/2024	2.0 - 3.25%	\$ 254,843	\$ -	\$ 33,546	\$ 221,297

The minimum payments are as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Fiscal Year Ended June 30th	Local Principal	Interest	Total Payments
2020	34,275	6,127	40,402
2021	35,171	5,231	40,402
2022	36,242	4,159	40,401
2023	37,346	3,056	40,402
2024	38,508	1,894	40,402
2025	39,755	646	40,401
	<u>\$ 221,297</u>	<u>\$ 21,112</u>	<u>\$ 242,409</u>

Net Pension & OPEB Liability

The net pension liability is \$3,005,881 for governmental activities and \$134,524 for business-type activities for a total of \$3,140,405 as of June 30, 2019. (See Note F for additional information) The net OPEB liability is \$2,666,257 for governmental activities and \$39,216 for business-type activities for a total of \$2,705,473 as of June 30, 2019. (See Note H for additional information)

Accumulated Sick Leave

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. The activity during fiscal year 2019 for accumulated sick leave is as follows:

2018 Outstanding Balance	Additions	Retirements	2019 Outstanding Balance
\$ 145,969	\$ 62,967	\$ -	\$ 208,936

A summary of activity in bond obligations and other debts is as follows:

Description	2018 Outstanding Balance	Additions	Retirements	2019 Outstanding Balance	Amount Due in 1 Year
Bonds, Net Premium and Discount	\$ 6,067,892	\$ -	\$ 346,013	\$ 5,721,879	\$ 352,000
Capital Lease (See Note E)	231,865	-	41,694	190,171	41,694
KSBIT	254,843	-	33,546	221,297	34,275
Net Pension Liability	3,316,601	-	176,196	3,140,405	-
Net OPEB Liability	3,126,100	-	420,627	2,705,473	-
Sick Leave	145,969	62,967	-	208,936	-
Totals	<u>\$ 13,143,270</u>	<u>\$ 62,967</u>	<u>\$ 1,018,076</u>	<u>\$ 12,188,161</u>	<u>\$ 427,969</u>

NOTE E – CAPITAL LEASES

The following is an analysis of the leased property under capital lease by class:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

KISTA Issue	Original Amount	Maturity Date	Interest Rates	2018 Outstanding Balance	Additions	Retirements	2019 Outstanding Balance
Issue of 2012	\$ 175,500	3/1/2022	2.0 - 2.625%	\$ 68,258	\$ -	\$ 18,009	\$ 50,249
Issue of 2014	89,830	3/1/2024	2.0 - 3.0%	53,001	-	8,839	44,162
Issue of 2015	101,780	3/1/2025	1.0-2.625%	69,964	-	9,867	60,097
Issue of 2017	45,395	3/1/2027	2.55%	40,642	-	4,979	35,663
Totals				\$ 231,865	\$ -	\$ 41,694	\$ 190,171

Fiscal Year Ended 30-Jun	Principal Local	Interest Local	Total
2020	41,694	4,562	46,256
2021	39,530	3,659	43,189
2022	40,533	2,754	43,287
2023	23,388	1,757	25,145
2024	22,293	1,177	23,470
2025-2027	<u>22,733</u>	<u>912</u>	<u>23,645</u>
	\$ <u>190,171</u>	\$ <u>14,821</u>	\$ <u>204,992</u>

Total minimum lease payments	\$ 204,992
Less: Amount representing interest	<u>(14,821)</u>
Present Value of Net Minimum Lease Payments	\$ <u>190,171</u>

NOTE F – RETIREMENT PLANS

The District’s employees are provided with two pension plans, based on each position’s college degree requirement. The Kentucky Teachers Retirement System covers positions requiring teaching certification or otherwise requiring a college degree. The County Employees Retirement System covers employees whose position does not require a college degree or teaching certification.

Teachers Retirement System Kentucky (TRS)

Plan description—Teaching-certified employees of the Kentucky School District are provided pensions through the Teachers’ Retirement System of the State of Kentucky—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state. TRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). TRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth’s

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

financial statements. TRS issues a publicly available financial report that can be obtained at <http://www.trs.ky.gov/financial-reports-information>.

Benefits provided—For members who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

- 1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2.) Complete 27 years of Kentucky service.

Participants that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university members with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New members (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service is less than ten years. New members after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the system has been amended to change the benefit structure for members hired on or after that date.

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. TRS also provides disability benefits for vested employees at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing members and \$5,000 for retired or disabled members.

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

Contributions—Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university employees are required to contribute 12.855% of their salaries to the System.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions in the amount of 13.105% of salaries for local school district employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. For local school district employees whose salaries are federally funded, the employer contributes 15.355% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Medical Insurance Plan

Plan description—In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires TRS to provide post-employment healthcare benefits to eligible members and dependents. The TRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the TRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The TRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the TRS Medicare Eligible Health Plan.

Funding policy—In order to fund the post-retirement healthcare benefit, seven and one half percent (7.50%) of the gross annual payroll of members is contributed. Three point seventy-five percent (3.75%) is paid by member contributions and three quarters percent (.75%) from state appropriation and three percent (3.00%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to TRS

At June 30, 2019 the District did not report a liability for the District’s proportionate share of the net pension liability because the Commonwealth of Kentucky provides the pension support directly to TRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of KTRS net pension liability	\$	-
Commonwealth's proportionate share of the KTRS net pension liability associated with the District		<u>12,951,684</u>
	\$	<u>12,951,684</u>

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June, 30, 2019, the District’s proportion was 0.0989%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Actuarial Methods and Assumptions—The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of pay, closed
Remaining Amortization Period	27.4 years
Asset Valuation Method	5-year smoothed market
Single Equivalent Interest Rate	7.50%
Municipal Bond Index Rate	3.89%
Projected Salary Increase	3.50 – 7.30%, includes wage inflation of 3.50%
Investment Rate of Return	7.5%, includes price inflation of 3.00%

The following represents assumptions and changes of assumptions from the prior valuation to the valuation performed as of June 30, 2018:

- Municipal Bond Index Rate increased to 3.89%.
- Single Equivalent Interest Rate increased to 7.50%.

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale BB to 2025 (with a setforward of 1 year for females and 2 years for males). The most recent experience study based on the results from July 1, 2010 – June 30, 2015 adopted by the Board on September 19, 2016.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS’s investment consultant, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	40.0%	4.4%
Non U.S. Equity	22.0%	5.3%
Fixed Income	15.0%	1.5%
Additional Categories	8.0%	3.6%
Real Estate	6.0%	4.4%
Alternatives	7.0%	6.7%
Cash	2.0%	0.8%
Total	100.0%	

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Discount Rate: The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at the Actuarially Determined Contribution rates, adjusted by 95%, for all fiscal years in the future. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2037 and a municipal bond index rate of 3.56% was applied to all periods of projected benefit payments after 2037. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

The following table presents the net pension liability of the Commonwealth associated with the District, calculated using the discount rate of 7.50%, as well as what the Commonwealth’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
KTRS	6.50%	7.50%	8.50%
Commonwealth's proportionate share of net pension liability	\$ 16,601,736	\$ 12,951,684	\$ 9,880,653

Pension plan fiduciary net position: Detailed information about the pension plan’s fiduciary net position is available in the separately issued TRS financial report which is publically available at <http://www.TRS.ky.gov/>.

County Employees Retirement System

Plan description—Substantially all full-time classified employees of the District participate in the County Employees Retirement System (“CERS”). CERS is a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky General Assembly, The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or at <https://kyret.ky.gov>.

Benefits provided: Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Contributions: Funding for CERS is provided by members, who contribute 5.00% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions, and by employers of members. For the year ending June 30, 2019, employers were required to contribute 21.48% of the member’s salary. During the year ending June 30, 2019, the District contributed \$259,461 to the CERS pension plan. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

CERS-Medical Insurance Plan

In addition to the CERS pension benefits described above, recipients of CERS retirement benefits may elect to participate in a voluntary hospital/medical group insurance plan for themselves and their dependents. The cost of participation for their dependents is borne by the retiree. The retirement system will pay a portion of the cost of participation for the retiree based on years of service as follows: Less than 4 years – 0%, 4-9 years – 25%, 10-14 years – 50%, 15-19 years – 75% and 20 or more years – 100%.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to CERS

At June 30, 2019, the District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2018. An expected total pension liability as of June 30, 2018 was determined using standard roll-forward techniques. The District’s proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2018. At June 30, 2019, the District’s proportion was 0.051564%.

District's proportionate share of CERS net pension liability	\$	3,140,405
Commonwealth's proportionate share of the KTRS net pension liability associated with the District		<u>-</u>
	\$	<u><u>3,140,405</u></u>

For the year ended June 30, 2019, the District recognized pension expense of \$115,551. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

SEE TABLE ON FOLLOWING PAGE

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<hr/>	<hr/>
Differences between expected and actual experience	\$ 102,431	45,969
Changes of assumptions	306,909	-
Net difference between projected and actual earnings on pension plan investments	146,031	183,686
Changes in proportion and differences between District contributions and proportionate share of contributions	-	260,842
District contributions subsequent to the measurement date	<hr/> 259,461	<hr/> -
	\$ <u>814,832</u>	\$ <u>490,497</u>

The \$259,461 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These will be recognized in pension expense as follows:

	Year Ended June 30,
	<hr/>
2020	\$ 120,983
2021	29,962
2022	(69,216)
2023	<hr/> (16,855)
	\$ <u>64,874</u>

Actuarial Methods and Assumptions—The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2018. The financial reporting actuarial valuation as of June 30, 2018, used the following actuarial methods and assumptions:

Valuation Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 years
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4% average
Investment Rate of Return	7.5%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The following represents assumptions and changes of assumptions from the prior valuation to the valuation performed as of June 30, 2018:

- The assumed investment rate of return increased to 7.50%.
- The assumed rate of inflation increased to 3.25%.
- The Salary Increase increased to 4.00%.
- The Asset Valuation Method changed to 20% of the difference between the market value of assets and the expected actuarial value of assets.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined Equity	35.0%	5.85%
Combined Fixed Income	24.0%	6.69%
Global Bond	4.0%	3.00%
Real Return (Diversified Inflation Strategies)	10.0%	7.00%
Real Estate	5.0%	9.00%
Absolute Return (Diversified Hedge Funds)	10.0%	5.00%
Private Equity	10.0%	6.50%
Cash Equivalent	<u>2.0%</u>	1.50%
	<u>100.0%</u>	

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Discount rate: The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District’s proportionate share of net pension liability to changes in the discount rate: The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 6.25%, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
CERS	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	\$ 3,953,444	\$ 3,140,405	\$ 2,459,220

Pension plan fiduciary net position: Detailed information about the pension plan’s fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

Payables to the pension plan: At June 30, 2019, there are no payables to CERS.

NOTE G – ACCOUNTING STANDARDS STATEMENT NO. 75

Government Accounting Standards Board (GASB) Statement No. 75 replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than OPEB’s, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB.

Reporting under GASB 75 is effective for fiscal years commencing after June 15, 2017.

NOTE H – POSTEMPLOYMENT BENEFITS OTHER THAN OPEB

The District’s employees participate in retirement systems of either TRS or CERS as described earlier. The following describes the postemployment benefits other than OPEB for both systems.

TRS – General Information about the OPEB Plans

Plan description – Teaching-certified employees of the District are provided OPEBs through TRS – a cost-sharing multiple-employer defined benefit OPEB plan with special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

agencies in the state. TRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). TRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. TRS issues a publicly available financial report that can be obtained at <http://www.trs.ky.gov/financial-reports-information>.

The state reports a liability, deferred outflows of resources and deferred inflows of resources, and expense as a result of its statutory requirement to contribute to the TRS Medical Insurance and Life Insurance Plans.

Retiree Medical Plan funded by the Medical Insurance Fund

Plan description—In addition to the OPEB benefits described above, Kentucky Revised Statute 161.675 requires TRS to provide post-employment healthcare benefits to eligible members and dependents. The TRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan with a special funding situation. Changes made to the medical plan may be made by the TRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

Benefits provided - To be eligible for medical benefits, the member must have retired either for service or disability. The TRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. TRS retired members are given a supplement to be used for payment of their health insurance premium. The amount of the member's supplement is based on a contribution supplement table approved by the TRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the TRS Medicare Eligible Health Plan.

Contributions - In order to fund the post-retirement healthcare benefit, seven and one half percent (7.50%) of the gross annual payroll of members is contributed. Three point seventy-five percent (3.75%) is paid by member contributions and three quarters percent (.75%) from state appropriation and three percent (3.00%) from the employer. The state contributes the net cost of health insurance premiums for members who retired on or after July 1, 2010 who are in the non-Medicare eligible group. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At June 30, 2019, the District reported a liability of \$1,790,000 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the District. The collective net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was based on a projection of the District's long-term share of

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2019, the District's proportion was .051586 percent.

The amount recognized by the District as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of KTRS net OPEB liability	\$	1,790,000
Commonwealth's proportionate share of the KTRS net OPEB liability associated with the District		<u>1,542,000</u>
	\$	<u><u>3,332,000</u></u>

At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 171,000
Changes of assumptions	46,000	-
Net difference between projected and actual earnings on pension plan investments	-	14,000
Changes in proportion and differences between District contributions and proportionate share of contributions	-	158,000
District contributions subsequent to the measurement date	<u>94,307</u>	<u>-</u>
	\$ <u><u>140,307</u></u>	\$ <u><u>343,000</u></u>

The \$94,307 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the collective net OPEB liability for the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

	<u>Year Ended June 30,</u>
2020	\$ (57,000)
2021	(57,000)
2022	(57,000)
2023	(51,000)
2024	(52,000)
Thereafter	<u>(23,000)</u>
	\$ <u><u>(297,000)</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Changes of Benefit Terms - None

Changes of Assumptions- The amortization period decreased to 23 years and the Municipal Bond Index Rate increased to 3.89%.

Actuarial Methods and Assumptions—The total OPEB liability was determined using an actuarial valuation of the June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Amortization Method	23 years, closed
Asset Valuation Method	5-year smoothed value
Single Equivalent Interest Rate	8.00%
Municipal Bond Index Rate	3.89%
Investment Rate of Return	8.0%, includes price inflation
Inflation	3.0%
Real Wage Growth	.50%
Wage Inflation	3.50%
Salary Increase	3.50 to 7.20%, including wage inflation
Discount Rate	8.0%

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale BB to 2025 (with a setforward of 1 year for females and 2 years for males). The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS's investment consultant, are summarized in the following table:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
Global Equity	58.0%	4.6%
Fixed Income	9.0%	1.2%
Real Estate	5.5%	3.8%
Private Equity	6.5%	6.3%
High Yield	20.0%	3.3%
Cash	1.0%	0.9%
	<hr/> 100.0%	

Discount Rate: The discount rate used to measure the total OPEB liability was 8.00%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 74. The projections basis was an actuarial valuation performed as of June 30, 2017. In addition to actuarial methods and assumptions were used in the projection of cash flows:

- Total payroll for the initial projection year consists of the payroll of the active membership present on the Valuation Date. In subsequent projection years, total payroll was assumed to increase annually at a rate of 3.50%.
- For the retiree health care costs of those beneficiaries under age 65, the KEHP implicit rate subsidies were assumed to be paid in all years by the employer directly to plan members as the benefits come due.
- As administrative expenses were assumed to be paid in all years by the employer as they come due, they were not considered.
- Cash flows occur mid-year.

Future contributions to the MIF were based upon the contribution rates defined in statute and the projected payroll of active employees. Per KRS 161.540(1)(c).3 and 161.550(5), when the MIF achieves a sufficient prefunded status, as determined by the retirement system’s actuary, the following MIF statutory contributions are to be decreased, suspended, or eliminated:

- Employee Contributions
- School District/ University Contributions
- State Contributions for KEHP premium subsidies payable to retirees who retire after June 30, 2010

To reflect these adjustments, open group projections were used and assumed an equal, pro rata reduction to the current statutory amount in the years if/when the MIF is projected to achieve a Funded Ratio of 100% or more, Here, the current statutory amounts are adjusted to achieve total contributions equal to the Actuarially Determined Contribution (ADC), as determined by the prior year’s valuation and in accordance with the MIF’s funding policy (Schedule E). As the specific methodology to be used for the adjustments has yet to be determined, there may be differences between the projected results and future experience. This may also include any changes to retiree contributions for KEHP coverage pursuant to KRS 161.675(4)(b).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

In developing the adjustments to the statutory contributions in future years the following was assumed:

- Liabilities and cash flows are net of expected retiree contributions and any implicit subsidies attributable to coverage while participating in KEHP.
- A 0% active member growth rate was assumed for the purposes of developing estimates for new entrants (membership dates beyond June 30, 2016).

Based on these assumptions, the MIF’s fiduciary net position was not projected to be depleted.

The following table presents the net OPEB liability of the Commonwealth associated with the District, calculated using the discount rate of 8.00%, as well as what the Commonwealth’s net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
KTRS	7.00%	8.00%	9.00%
District's & State's proportionate share of net OPEB liability	\$ 3,908,000	\$ 3,332,000	\$ 2,853,000

Sensitivity of the District’s proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates – The following presents the District’s proportionate share of the collective net OPEB liability, as well as what the District’s proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Trend Rate	1% Increase
District's & State's proportionate share of net OPEB liability	\$ 2,763,000	\$ 3,332,000	\$ 4,035,000

OPEB plan fiduciary net position – Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued TRS financial report.

Other Post Employment Benefits Liabilities related to the Life Insurance Plan funded by - Life Insurance Plan (LIF)

Plan description – Life Insurance Plan - TRS administers the life insurance plan as provided by Kentucky Revised Statute 161.655 to eligible active and retired members. The TRS Life Insurance benefit is a cost-sharing multiple employer defined benefit plan with a special funding situation. Changes made to the life insurance plan may be made by the TRS Board of Trustees and the General Assembly.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Benefits provided - Effective July 1, 2000, the Kentucky Teachers' Retirement System shall:

- Provide a life insurance benefit in a minimum amount of five thousand dollars (\$5,000) for its members who are retired for service or disability. This life insurance benefit shall be payable upon the death of a member retired for service or disability to the member's estate or to a party designated by the member on a form prescribed by the retirement system; and
- Provide a life insurance benefit in a minimum amount of two thousand dollars (\$2,000) for its active contributing members. This life insurance benefit shall be payable upon the death of an active contributing member to the member's estate or to a party designated by the member on a form prescribed by the retirement system.

Contributions – In order to fund the post-retirement life insurance benefit, three hundredths of one percent (.03%) of the gross annual payroll of members is contributed by the state.

Note: Members employed on a substitute or part-time basis and working at least 69% of a full contract year in a single fiscal year will be eligible for a life insurance benefit for the balance of the fiscal year or the immediately succeeding fiscal year under certain conditions. For non-vested members employed on a substitute or part-time basis, the life insurance benefit is provided if death occurs as the result of a physical injury on the job. For vested members employed on a substitute or part-time basis, death does not have to be the result of a physical injury on the job for life insurance benefits to be provided.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At June 30, 2019, the District did not report a liability for its proportionate share of the collective net OPEB liability for life insurance benefits because the State of Kentucky provides the OPEB support directly to TRS on behalf of the District. The amount recognized by the District as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of KTRS net OPEB liability	\$	-
Commonwealth's proportionate share of the KTRS net OPEB liability associated with the District		<u>26,000</u>
	\$	<u><u>26,000</u></u>

For the year ended June 30, 2019, the District recognized OPEB expense of \$71,480 and revenue of \$71,480 for support provided by the State.

Changes of Benefit Terms— Discount rate decreased to 7.5%. Amortization method changed from open to closed. Municipal bond interest rate increased to 3.89%. Inflation increased to 3.5%. Wage inflation increased to 4.0%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Actuarial Methods and Assumptions—The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Amortization Method	30 years, closed
Asset Valuation Method	5-year smoothed value
Single Equivalent Interest Rate	7.5%
Municipal Bond Index Rate	3.89%
Investment Rate of Return	7.5%, includes price inflation
Inflation	3.5%
Real Wage Growth	.50%
Wage Inflation	4.00%
Salary Increase	4.00-8.10%, including wage inflation
Discount Rate	8.0%

The following represents assumptions and changes of assumptions from the prior valuation to the valuation performed as of June 30, 2018:

- Amortization period switched to closed.
- Projected salary increases increased to 4%.
- Inflation rate increased to 3.5%.
- Wage inflation increased to 4%.
- Municipal Bond Index Rate increased to 3.89%.

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale BB to 2025 (with a setforward of 1 year for females and 2 years for males). The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS's investment consultant, are summarized in the following table:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
U.S. Equity	40.0%	4.2%
International Equity	23.0%	5.2%
Fixed Income	18.0%	1.2%
Real Estate	6.0%	3.8%
Private Equity	5.0%	6.3%
Other Additional Categories	6.0%	3.3%
Cash	2.0%	0.9%
	<hr/> 100.0%	

Discount Rate: The discount rate used to measure the total OPEB liability was 8.0%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 74. The projections basis was an actuarial valuation performed as of June 30, 2018. In addition to actuarial methods and assumptions were used in the projection of cash flows:

- Total payroll for the initial projection year consists of the payroll of the active membership present on the Valuation Date. In subsequent projection years, total payroll was assumed to increase annually at a rate of 4.00%.
- The employer will contribute the Actuarially Determined Contribution (ADC) in accordance with the funds funding policy determined by a valuation performed on a date two years prior to the beginning of the fiscal year in which the ADC applies.
- As administrative expenses were assumed to be paid in all years by the employer as they come due, they were not considered.
- Active employees do not explicitly contribute to the plan.
- Cash flows occur mid-year.

Based on these assumptions, the LIF’s fiduciary net position was not projected to be depleted.

The following table presents the District’s proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 8.00%, as well as the District’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
KTRS	7.00%	8.00%	9.00%
District's proportionate share of net OPEB liability	\$ 40,000	\$ 26,000	\$ 15,000

OPEB plan fiduciary net position – Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued TRS financial report.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

CERS – General Information about the OPEB Plans

Other Pension Benefit Programs-Employees’ Health Plan

Plan description – Recipients of CERS retirement benefits may elect to participate in a voluntary hospital/medical group insurance plan for themselves and their dependents. The cost of participation for their dependents is borne by the retiree. The retirement system will pay a portion of the cost of participation for the retiree based on years of service as follows: Less than 4 years – 0%, 4-9 years – 25%, 10-14 years – 50%, 15-19 years – 75% and 20 or more years – 100%.

Benefits provided – Post Retirement Death Benefits – members with a least 4 years creditable service the System will pay a \$5,000 death benefit. Insurance benefits as described above.

Contributions - Requirements for medical benefits are a portion of the actuarially determined rates of covered payroll, as disclosed above. Current employees pay 1% toward the insurance fund.

The unfunded medical benefit obligation of the CERS, based upon the entry age normal cost method, as of June 30, 2019 was as follows:

Total medical benefit obligation	\$ 3,092,623
Net position available for benefits at actuarial value	<u>(2,371,430)</u>
Unfunded medical benefit obligation	<u><u>\$ 721,193</u></u>

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At June 30, 2019, the District reported a liability of \$915,473 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was based on a projection of the District’s long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2019, the District’s proportion was .05156200 percent.

The amount recognized by the District as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of net OPEB liability	\$ 915,473
Commonwealth's proportionate share of the net OPEB liability associated with the District	<u>-</u>
	<u><u>\$ 915,473</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended June 30, 2019, the District recognized OPEB expense of \$28,273. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	106,686
Changes of assumptions	182,834	2,115
Net difference between projected and actual earnings on pension plan investments	-	63,058
Changes in proportion and differences between District contributions and proportionate share of contributions	-	77,468
District contributions subsequent to the measurement date	<u>27,736</u>	<u>-</u>
	\$ <u>210,570</u>	\$ <u>249,327</u>

The \$27,736 (includes \$14,768 Implicit Subsidy) reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the collective net OPEB liability for the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

	<u>Year Ended June 30,</u>
2020	\$ (11,455)
2021	(11,455)
2022	(11,455)
2023	792
2024	(22,632)
Thereafter	<u>(10,288)</u>
	\$ <u>(66,493)</u>

Implicit Employer Subsidy- The fully-insured premiums KRS pays for the Kentucky Employees' Health Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. GASB 75 requires that the liability associated with this implicit subsidy be included in the calculation of the Total OPEB Liability.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Changes of Benefit Terms-None

Changes of Assumptions-There have been no changes in actuarial assumption since June 30, 2017.

Actuarial Methods and Assumptions—The total OPEB liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2018. The financial reporting actuarial valuation used the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Amortization Period	27 years, Closed
Asset Valuation Method	20% of difference in market and expected market value
Price Inflation	3.25%
Salary Increase	4.00%, average
Investment Return	7.50%
Payroll Growth	4.0%
Mortality	RP-2000 Combined Mortality Table, projected to 2013 With Scale BB (set back 1 year females)
Healthcare Trend Rates (Pre-65)	Initial trend starting at 7.50% and gradually decreasing To an ultimate trend rate of 5.00% over period of 5 years.
Healthcare Trend Rates (Post 65)	Initial trend starting at 5.50% and gradually decreasing To an ultimate trend rate of 5.00% over period of 2 years.

Discount rate: The discount rate used to measure the total OPEB liability was 5.85%. The rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.62%, as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2018. Future contributions from plan members and employers will be made with the Board’s current funding policy, which includes the requirement that each participating employer in the System contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 years as of June 30, 2017) and actuarial assumptions adopted by the Board.

The following table presents the net OPEB liability of the District, calculated using the discount rate of 5.85%, as well as what the District’s net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.85%) or 1-percentage-point higher (6.85%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
CERS	4.85%	5.85%	6.85%
District's proportionate share of net OPEB liability	\$ 1,189,053	\$ 915,473	\$ 4682,433

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Sensitivity of the District’s proportionate share of net OPEB liability to changes in the discount rate:
 The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 5.85%, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.85%) or 1-percentage-point higher (6.85%) than the current rate:

	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of net OPEB liability	\$ 681,579	\$ 915,473	\$ 1,191,167

OPEB plan fiduciary net position – Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued CERS financial report.

NOTE I – COMMITMENTS

As of June 30, 2019, the District has commitments of \$42,075 for construction projects.

NOTE J - CONTINGENCIES

The District receives funding from Federal, State and Local governmental agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor’s review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and un-reimbursed disbursements, if any, is not expected to be significant. Continuation of the District’s grant programs is predicated upon the grantors’ satisfaction the funds provided are being spent as intended and the grantors’ intent to continue their program.

NOTE K – LITIGATION

The District has no pending or threatened litigation involving amounts exceeding \$10,000 individually or in the aggregate as of June 30, 2019.

NOTE L – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, illegal acts, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively rated which include Workers’ Compensation insurance.

NOTE M – RISK MANAGEMENT

The District is exposed to various risks of loss related to illegal acts, torts, theft/damage/destruction of assets, errors and omissions, injuries to employees, and natural disasters. To obtain insurance for workers’

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

compensation, errors and omission, and general liability coverage, the District purchased commercial insurance policies.

The District purchases unemployment insurance through the Kentucky School Districts Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

NOTE N - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

NOTE O – TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From</u>	<u>To</u>	<u>Purpose</u>	<u>Amount</u>
Operating	Capital Outlay Fund	General Fund	Operations	\$ 82,008
Operating	Food Service Fund	General Fund	Indirect Costs	42,264
Operating	General Fund	Special Revenue Fund	KETS	16,833
Debt Service	FSPK Fund	Debt Service Fund	Debt Payments	338,399
Debt Service	Special Revenue Fund	Debt Service Fund	Debt Payments	69,878
Operating	FSPK Fund	Construction	Operations	4,159
Operating	Capital Outlay Fund	Construction	Operations	\$ 49,658

NOTE P – ON-BEHALF PAYMENTS

For fiscal year 2019, the Commonwealth of Kentucky contributed estimated payments on behalf of the District as follows:

<u>Plan/Description</u>	<u>Amount</u>
Kentucky Teachers Retirement System (GASB 68 &75)	\$ 1,018,563
Health Insurance	1,028,289
Life Insurance	1,491
Administrative Fee	12,292
HRA/Dental/Vision	16,100
Federal Reimbursement	(132,111)
Technology	65,688
SFCC Debt Service Payments	98,273
Total	\$ <u>2,108,584</u>

NOTE Q – RESTRICTED FUND BALANCES

The following funds had restricted fund balances:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Fund</u>		<u>Amount</u>	<u>Purpose</u>
District Activity	\$	5,269	District Activities
FSPK		112,840	SFCC Requirement
Food Service		119,253	Food Service Operations
Construction	\$	64,881	Future Construction

NOTE R – DEFICIT FUND AND OPERATING BALANCES

The following funds had a deficit change in fund balance/net position and/or deficit fund balance/net position:

<u>Fund</u>		<u>Change in Net Position/ Net Change in Fund Balance</u>
FSPK Fund	\$	(585)
District Activity		(1,366)
Capital Outlay Fund	\$	(49,658)

NOTE S – SUBSEQUENT EVENTS

The District has evaluated subsequent events through November 12, 2019 the date of the audit report.

LEE COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
CERS and KTRS
For the Year Ended June 30, 2019

	Reporting Fiscal Year (Measurement Date) 2019 (2018)	Reporting Fiscal Year (Measurement Date) 2018 (2017)	Reporting Fiscal Year (Measurement Date) 2017 (2016)	Reporting Fiscal Year (Measurement Date) 2016 (2015)
COUNTY EMPLOYEE'S RETIREMENT SYSTEM (CERS):				
Districts' proportion of the net pension liability	0.05156%	0.05666%	0.060900%	0.06330%
District's proportionate share of the net pension liability	\$ 3,140,405	\$ 3,316,601	\$ 2,998,915	\$ 2,723,320
State's proportionate share of the net pension liability associated with the District	-	-	-	-
Total	<u>\$ 3,140,405</u>	<u>\$ 3,316,601</u>	<u>\$ 2,998,915</u>	<u>\$ 2,723,320</u>
District's covered-employee payroll	\$ 1,220,155	\$ 1,379,582	\$ 1,450,859	\$ 1,479,836
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	257.38%	240.41%	206.70%	184.03%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	53.30%	59.00%	59.97%
KENTUCKY TEACHER'S RETIREMENT SYSTEM (KTRS):				
Districts' proportion of the net pension liability	0.099%	0.105%	0.112%	0.117%
District's proportionate share of the net pension liability	\$ -	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with the District	<u>12,951,684</u>	<u>28,218,554</u>	<u>33,156,056</u>	<u>28,067,443</u>
Total	<u>\$ 12,951,684</u>	<u>\$ 28,218,554</u>	<u>\$ 33,156,056</u>	<u>\$ 28,067,443</u>
District's covered-employee payroll	\$ 4,031,259	\$ 4,074,186	\$ 4,318,974	\$ 4,301,283
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.000%	0.000%	0.000%	0.000%
Plan fiduciary net position as a percentage of the total pension liability	59.30%	39.80%	35.22%	42.29%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available. Amounts presented for each fiscal is determined as of June 30.

See the accompanying notes to the required supplementary information.

LEE COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF CONTRIBUTIONS
CERS and KTRS

For the Year Ended June 30, 2019

	2019	2018	2017	2016
COUNTY EMPLOYEE'S RETIREMENT SYSTEM (CERS):				
Contractually required contribution	\$ 259,461	\$ 223,027	\$ 237,987	\$ 247,516
Contributions in relation to the contractually required contributions	<u>259,461</u>	<u>223,027</u>	<u>237,987</u>	<u>247,516</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 1,028,006	\$ 1,220,155	\$ 1,379,582	\$ 1,450,859
District's contributions as a percentage of it's covered-employee payroll	25.24%	18.28%	17.25%	17.06%
 KENTUCKY TEACHER'S RETIREMENT SYSTEM (KTRS):				
Contractually required contribution	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 4,037,310	\$ 4,031,259	\$ 4,074,186	\$ 4,318,974
District's contributions as a percentage of it's covered-employee payroll	0.00%	0.00%	0.00%	0.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available. Amounts presented for each fiscal is determined as of June 30.

See the accompanying notes to the required supplementary information.

LEE COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-PENSION
For the year ended June 30, 2019

(1) CHANGES OF ASSUMPTIONS

KTRS

The following represents assumptions and changes of assumptions from the prior valuation to the valuation performed as of June 30, 2018:

- Municipal Bond Index Rate increased to 3.89%.
- Single Equivalent Interest Rate increased to 7.50%.

CERS

The following represents assumptions and changes of assumptions from the prior valuation to the valuation performed as of June 30, 2018:

- The assumed investment rate of return increased to 7.50%.
- The assumed rate of inflation increased to 3.25%.
- The Salary Increase increased to 4.00%.
- The Asset Valuation Method changed to 20% of the difference between the market value of assets and the expected actuarial value of assets.

(2) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

KTRS

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of that schedule:

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of pay, closed
Remaining Amortization Period	27.4 years
Asset Valuation Method	5-year smoothed market
Single Equivalent Interest Rate	7.50%
Municipal Bond Index Rate	3.89%
Projected Salary Increase	3.50 – 7.30%, includes wage inflation of 3.50%
Investment Rate of Return	7.5%, includes price inflation of 3.00%

LEE COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-PENSION
For the year ended June 30, 2019

CERS

The Board of Trustees uses this actuarial valuation to certify the employer contribution rates for CERS for the fiscal year beginning July 1, 2018 and ending June 30, 2019. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of that schedule:

Valuation Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 years
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4% average
Investment Rate of Return	7.5%

(3) CHANGES OF BENEFITS

There were no changes of benefit terms for KTRS or CERS.

LEE COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
MEDICAL AND LIFE INSURANCE PLANS - TEACHERS' RETIREMENT SYSTEM
Year Ended June 30, 2019

	Reporting Fiscal Year (Measurement Date) 2019 (2018)	Reporting Fiscal Year (Measurement Date) 2018 (2017)
	<u> </u>	<u> </u>
MEDICAL INSURANCE PLAN		
District's proportion of the collective net OPEB liability (asset)	0.05159%	0.05573%
District's proportionate share of the collective net OPEB liability (asset)	\$ 1,790,000	\$ 1,987,000
State's proportionate share of the collective net OPEB liability (asset) associated with the District	<u>1,542,000</u>	<u>1,623,000</u>
Total	<u>\$ 3,332,000</u>	<u>\$ 3,610,000</u>
District's covered-employee payroll	\$ 4,031,259	\$ 4,074,186
District's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered-employee payroll	44.40%	48.77%
Plan fiduciary net position as a percentage of the total OPEB liability	25.50%	21.20%
LIFE INSURANCE PLAN		
District's proportion of the collective net OPEB liability (asset)	0.00000%	0.00000%
District's proportionate share of the collective net OPEB liability (asset)	\$ -	\$ -
State's proportionate share of the collective net OPEB liability (asset) associated with the District	<u>26,000</u>	<u>22,000</u>
Total	<u>\$ 26,000</u>	<u>\$ 22,000</u>
District's covered-employee payroll	\$ 4,031,259	\$ 4,074,186
District's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered-employee payroll	0.00%	0.00%
Plan fiduciary net position as a percentage of the total OPEB liability	75.00%	80.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available. Amounts presented for each fiscal is determined as of June 30.

See the accompanying notes to the required supplementary information.

LEE COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF CONTRIBUTIONS
MEDICAL AND LIFE INSURANCE PLANS
TEACHERS' RETIREMENT SYSTEM
Year Ended June 30, 2019

	2019	2018
MEDICAL INSURANCE PLAN		
Contractually required contribution	\$ 94,307	\$ 91,787
Contributions in relation to the contractually required contribution	94,307	91,787
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ 4,037,310	\$ 4,031,259
District's contributions as a percentage of it's covered-employee payroll	2.34%	2.28%
 LIFE INSURANCE PLAN		
Contractually required contribution	\$ -	\$ -
Contributions in relation to the contractually required contribution	-	-
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ 4,037,310	\$ 4,031,259
District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	0.00%	0.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available. Amounts presented for each fiscal is determined as of June 30.

See the accompanying notes to the required supplementary information.

LEE COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY -HEALTH INSURANCE PLAN
COUNTY EMPLOYEE RETIREMENT SYSTEM
Year Ended June 30, 2019

	Reporting Fiscal Year (Measurement Date) 2019 (2018)	Reporting Fiscal Year (Measurement Date) 2018 (2017)
	<u> </u>	<u> </u>
HEALTH INSURANCE PLAN		
District's proportion of the collective net OPEB liability (asset)	0.05156%	0.05666%
District's proportionate share of the collective net OPEB liability (asset)	\$ 915,473	\$ 1,139,100
State's proportionate share of the collective net OPEB liability (asset) associated with the District	<u>-</u>	<u>-</u>
Total	<u>\$ 915,473</u>	<u>\$ 1,139,100</u>
District's covered-employee payroll	\$ 1,220,155	\$ 1,379,582
District's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered-employee payroll	75.03%	82.57%
Plan fiduciary net position as a percentage of the total OPEB liability	57.62%	13.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available. Amounts presented for each fiscal is determined as of June 30.

See the accompanying notes to the required supplementary information.

LEE COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF CONTRIBUTIONS - HEALTH INSURANCE PLAN
COUNTY EMPLOYEE RETIREMENT SYSTEM
Year Ended June 30, 2019

	2019	2018
HEALTH INSURANCE PLAN		
Contractually required contribution	\$ 27,736	\$ 24,921
Contributions in relation to the contractually		
	27,736	24,921
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ 1,028,006	\$ 1,220,155
District's contributions as a percentage of it's covered-employee payroll	2.70%	2.04%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available. Amounts presented for each fiscal is determined as of June 30.

See the accompanying notes to the required supplementary information.

LEE COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-OPEB
 Year Ended June 30, 2019

TRS

(1) CHANGES OF BENEFIT TERMS

There were no changes of benefit terms for the medical insurance fund or the life insurance fund.

(2) CHANGES OF ASSUMPTIONS

Medical Insurance Fund

- The amortization period decreased to 23 years and the Municipal Bond Index Rate increased to 3.89%.

Life Insurance Fund

- Amortization period switched to closed.
- Projected salary increases increased to 4%.
- Inflation rate increased to 3.5%.
- Wage inflation increased to 4%.
- Municipal Bond Index Rate increased to 3.89%.

(3) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

Medical Insurance Fund

The actuarially determined contribution rates, as a percentage of payroll used to determine the actuarially determined contribution amounts in the Schedule of Employer Contributions are calculated as of the indicated valuation date. The following actuarial methods and assumptions (from the indicated actuarial valuations) were used to determine contribution rates reported in that schedule for the year ending June 30, 2019:

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Amortization Method	23 years, closed
Asset Valuation Method	5-year smoothed value
Single Equivalent Interest Rate	8.00%
Municipal Bond Index Rate	3.89%
Investment Rate of Return	8.0%, includes price inflation
Inflation	3.0%
Real Wage Growth	.50%
Wage Inflation	3.50%
Salary Increase	3.50 to 7.20%, including wage inflation
Discount Rate	8.0%

Life Insurance Fund

The actuarially determined contribution rates, as a percentage of payroll used to determine the actuarially determined contribution amounts in the Schedule of Employer Contributions are calculated as of the indicated valuation date. The following actuarial methods and assumptions (from the indicated actuarial valuations) were used to determine contribution rates reported in that schedule for the year ending June 30, 2019:

LEE COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-OPEB
 Year Ended June 30, 2019

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Amortization Method	30 years, closed
Asset Valuation Method	5-year smoothed value
Single Equivalent Interest Rate	7.5%
Municipal Bond Index Rate	3.89%
Investment Rate of Return	7.5%, includes price inflation
Inflation	3.5%
Real Wage Growth	.50%
Wage Inflation	4.00%
Salary Increase	4.00-8.10%, including wage inflation
Discount Rate	8.0%

CERS

Other Pension Benefit Programs-Employees' Health Plan

(1) CHANGES OF BENEFIT TERMS

None.

(2) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

Recipients of CERS retirement benefits may elect to participate in a voluntary hospital/medical group insurance plan for themselves and their dependents. The cost of participation for their dependents is borne by the retiree. The retirement system will pay a portion of the cost of participation for the retiree based on years of service as follows: Less than 4 years – 0%, 4-9 years – 25%, 10-14 years – 50%, 15-19 years – 75% and 20 or more years – 100%.

Contributions requirements for medical benefits are a portion of the actuarially determined rates of covered payroll, as disclosed above.

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Amortization Period	27 years, Closed
Asset Valuation Method	20% of difference in market and expected market value
Price Inflation	3.25%
Salary Increase	4.00%, average
Investment Return	7.50%
Payroll Growth	4.0%
Mortality	RP-2000 Combined Mortality Table, projected to 2013 With Scale BB (set back 1 year females)
Healthcare Trend Rates (Pre-65)	Initial trend starting at 7.50% and gradually decreasing To an ultimate trend rate of 5.00% over period of 5 years.
Healthcare Trend Rates (Post 65)	Initial trend starting at 5.50% and gradually decreasing To an ultimate trend rate of 5.00% over period of 2 years.

Lee County School District
Combining Balance Sheet - Nonmajor Governmental Funds
 June 30, 2019

Other Governmental Funds

	FSPK Fund	Capital Outlay	Construction Fund	District Activity	Total
Assets					
Cash and Cash Equivalents	\$ 112,840	\$ -	\$ 64,881	\$ 5,269	\$ 182,990
Total Assets	<u>112,840</u>	<u>-</u>	<u>64,881</u>	<u>5,269</u>	<u>182,990</u>
Liabilities					
Accounts Payable					-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance					
Restricted	<u>112,840</u>		<u>64,881</u>	<u>5,269</u>	<u>182,990</u>
Total Fund Balance	<u>112,840</u>	<u>-</u>	<u>64,881</u>	<u>5,269</u>	<u>182,990</u>
Total Liabilities and Fund Balance	<u>\$ 112,840</u>	<u>\$ -</u>	<u>\$ 64,881</u>	<u>\$ 5,269</u>	<u>\$ 182,990</u>

See the accompanying notes to the financial statements.

Lee County School District
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds
Year ended June 30, 2019

Other Governmental Funds

	<u>FSPK Fund</u>	<u>Capital Outlay</u>	<u>Construction Fund</u>	<u>District Activity</u>	<u>Total</u>
Revenues					
Property taxes	\$ 147,172	\$ -	\$ -	\$ -	\$ 147,172
Student activities				1,550	1,550
Intergovernmental - state	194,801	82,008			276,809
Total Revenues	<u>341,973</u>	<u>82,008</u>	<u>-</u>	<u>1,550</u>	<u>425,531</u>
Expenditures					
Instruction				2,916	2,916
Building improvements			11,742		11,742
Total Expenditures	<u>-</u>	<u>-</u>	<u>11,742</u>	<u>2,916</u>	<u>14,658</u>
Excess (Deficit) of Revenues Over Expenditures	<u>341,973</u>	<u>82,008</u>	<u>(11,742)</u>	<u>(1,366)</u>	<u>410,873</u>
Other Financing Sources (Uses)					
Transfers in (out)	(342,558)	(131,666)	53,817		(420,407)
Total Other Financing Sources (Uses)	<u>(342,558)</u>	<u>(131,666)</u>	<u>53,817</u>	<u>-</u>	<u>(420,407)</u>
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(585)	(49,658)	42,075	(1,366)	(9,534)
Fund Balance-Beginning	<u>113,425</u>	<u>49,658</u>	<u>22,806</u>	<u>6,635</u>	<u>192,524</u>
Fund Balance-Ending	<u>\$ 112,840</u>	<u>\$ -</u>	<u>\$ 64,881</u>	<u>\$ 5,269</u>	<u>\$ 182,990</u>

See the accompanying notes to the financial statements.

Lee County School District
Combining Balance Sheet of Fiduciary Fund - School Activity Funds
 June 30, 2019

	SCHOOL ACTIVITY FUNDS			
	LEE COUNTY HIGH SCHOOL	LEE CO HIGH CHARITABLE GAMING ACCT	LEE COUNTY ELEMENTARY	TOTAL
ASSETS				
Cash and cash equivalents	\$ 102,249	\$ -	\$ 25,812	\$ 128,061
Certificate of deposit	10,000	-	-	10,000
Accounts receivable	-	-	-	-
Total Assets	112,249	-	25,812	138,061
LIABILITIES				
Accounts payable	731	-	1,705	2,436
FUND BALANCE				
School activities	111,518	-	24,107	135,625
Total Liabilities & Fund Balances	\$ 112,249	\$ -	\$ 25,812	\$ 138,061

See the accompanying notes to the financial statements.

Lee County School District
Combining Statement of Revenues, Expenses, and Changes In Fund Balance
School Activity Funds
Year ended June 30, 2019

	SCHOOL ACTIVITY FUNDS			
	LEE COUNTY HIGH SCHOOL	LEE CO HIGH CHARITABLE GAMING ACCT	LEE COUNTY ELEMENTARY	TOTAL
REVENUES				
Student/Trust revenues	\$ 209,525	\$ 2,578	\$ 63,260	\$ 275,363
EXPENSES				
Student/Trust activities	208,988	2,578	51,802	263,368
Total Expenses	208,988	2,578	51,802	263,368
Excess (Deficit) of Revenues Over Expenses	537	-	11,458	11,995
Fund Balance, beginning	110,981	-	12,649	123,630
Fund Balance, ending	\$ 111,518	\$ -	\$ 24,107	\$ 135,625

See the accompanying notes to the financial statements.

Lee County School District
Statement of Revenues, Expenses, and Changes in Fund Balance - Lee County High School
Year ended June 30, 2019

	FUND BALANCE BEGINNING	REVENUES	EXPENSES	TRANSFERS	FUND BALANCE ENDING
OFFICE	\$ 9,320	\$ 635	\$ 2,290	\$ -	\$ 7,665
LOCKERS	1,173	1,233	216	-	2,190
NOW INTEREST	2,145	1,386	-	-	3,531
STUDENT PARKING	8	195	114	-	89
COMPUTER SCIENCE	4,804	2,609	2,049	-	5,364
STUDENT VENDING	779	2,274	1,730	-	1,322
FACULTY VENDING	856	438	932	-	362
TEACHER CONTRIBUTION	664	775	1,186	-	253
CLASS OF 2017	1	-	1	-	-
STUDENT RESOURCE	121	750	256	-	615
ACADEMICS	380	100	199	-	282
BETA CLUB	4,166	590	1,427	-	3,329
CLASS OF 2019	7,422	22,859	31,661	2,836	1,456
FFA	4,177	25,850	22,449	(56)	7,523
CHESS CLUB	274	-	-	-	274
STUDENT COUNCIL	435	-	-	-	435
CLASS OF 2020	819	3,683	341	25	4,187
ART	334	-	328	-	6
BAND	1,265	19,147	20,324	-	88
BAND HONOR SOCIETY	20	-	-	-	20
COMMUNICATIONS	232	-	-	-	232
CLASS OF 2025	-	1,014	616	-	398
PROM	2,404	3,415	2,115	-	3,704
YEARBOOK	300	3,923	1,725	-	2,498
SCHOLARSHIP FUND	935	1,800	1,935	-	800
ATHLETIC	2,579	25,634	28,879	772	107
BOYS BASKETBALL	2,185	1,951	3,402	(51)	683
GIRLS BASKETBALL	2,150	125	1,092	(50)	1,133
SOFTBALL	2,191	1,034	2,204	(100)	922
VOLLEYBALL	3,026	2,347	417	(70)	4,886
TENNIS	20	32	-	-	52
CROSS COUNTRY	-	897	712	(34)	150
TRACK & FIELD	507	1,037	1,025	(16)	502
CHEERLEADER	5,861	14,567	14,337	(100)	5,992
CLASS OF 2021	-	3,034	1,854	-	1,180
AV/LIBRARY	1,467	176	-	-	1,643
CERTIFICATE OF DEPOSIT	11,179	-	-	-	11,179
CLASS OF 2018	2,789	1	(25)	(2,815)	0
BASEBALL BOOSTERS	2,656	2,817	2,733	(51)	2,689
ARCHERY	542	8,804	4,879	(92)	4,375
CAT SCRATCH EMBROIDERY	551	-	-	-	551
OTHER GRANTS	797	-	-	-	797
PRIDE CLUB	120	-	-	-	120
CLASS OF 2024	339	1,154	701	-	792
BOWLING	719	-	300	-	419
CLASS OF 2023	219	319	185	-	353
PROJECT PROM	956	4,490	4,100	-	1,346
CLASS OF 2022	122	-	-	-	122
CHARITABLE GAMING	-	2,578	2,578	-	-
MIDDLE GRADE OFFICE	3,513	544	-	-	4,057
MIDDLE GRADE LOCKS	916	935	-	-	1,851
MIDDLE GRADE FACULTY	187	364	331	-	220
MG STUDENT VENDING	-	43	-	-	43
MIDDLE GRADE STUDENTS	7,621	-	498	-	7,123
EIGHTH GRADE ACTIVITIES	1,479	5,846	6,968	-	357
MIDDLE GRADE ACADEMICS	164	-	-	-	164
MIDDLE GRADE BETA CLUB	10	2,228	2,152	-	85
MIDDLE GRADE STUD C	417	-	-	-	417
MIDDLE GRADE DRAMA	700	-	-	-	700
MIDDLE GRADE YEARBOOK	631	2,130	2,108	-	653
MIDDLE GRADE LIBRARY	922	-	-	-	922
MIDDLE GRADE ATHLETICS	780	12,441	13,476	256	(0)
MIDDLE GRADE GIRLS B	173	1,007	1,110	-	70
MIDDLE GRADE BOYS B	1,227	4,327	4,539	-	1,014
MIDDLE GRADE SOFTBALL	746	3,371	2,540	(200)	1,378
MIDDLE GRADE CHEER	4,186	7,862	10,532	-	1,517
8 GRADE ACTIVITIES	1	-	-	-	1
MIDDLE GRADE ARCHERY	2,634	3,050	1,992	(54)	3,638
MIDDLE GRADE BASEBALL	553	1,705	1,476	(200)	582
MIDDLE GRADE OFFICE	-	-	-	-	-
MIDDLE GRADE SUPPORT	112	-	-	-	112
TOTALS	\$ 110,981	\$ 209,525	\$ 208,988	\$ -	\$ 111,518

See the accompanying notes to the financial statements.

LEE COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2019

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Passed Through to Subrecipients	Program or Award Amount	Expenditures
US Department of Agriculture					
Passed Through State Department of Education:					
School Breakfast Program	10.553				
Fiscal Year 18		7760005 18	\$ -	\$ N/A	\$ 40,086
Fiscal Year 19		7760005 19	-	N/A	125,701
National School Lunch Program	10.555				
Fiscal Year 18		7750002 18	-	N/A	101,832
Fiscal Year 19		7750002 19	-	N/A	318,633
Summer Food Service Program for Children	10.559				
Fiscal Year 18		7690024 18	-	N/A	537
Fiscal Year 19		7690024 19	-	N/A	175
Fiscal Year 18		7740023 18	-	N/A	5,174
Fiscal Year 19		7740023 19	-	N/A	1,694
Child Nutrition Cluster Subtotal					<u>593,832</u>
Fresh Fruits & Vegetables	10.582				
Fiscal Year 19		7720012 19	-	N/A	13,382
Passed Through State Department of Agriculture:					
Food Donation-Commodities	10.565				
Fiscal Year 19		510.4950	-	N/A	42,497
Total US Department of Agriculture					<u>649,711</u>
US Department of Education					
Passed Through State Department of Education					
* Title I Grants to Local Educational Agencies	84.010A				
Fiscal Year 17		3100002 17	-	612,058	7,029
Fiscal Year 18		3100002 18	-	6,743	3,122
Fiscal Year 19		3100002 19	-	739,993	458,239
					<u>468,390</u>
Special Education Grants to States	84.027A				
Fiscal Year 18		3810002 18	-	255,485	41,210
Fiscal Year 19		3810002 19	-	253,210	210,200
Special Education-Preschool Grants	84.173A				
Fiscal Year 18		3800002 18	-	24,278	19,737
Fiscal Year 19		3800002 19	-	24,620	754
Special Education Cluster Subtotal					<u>271,901</u>
Vocation Education-Basic Grants to States	84.048				
Fiscal Year 18		3710002 18	-	10,354	1,767
Fiscal Year 19		3710002 19	-	8,394	7,200
					<u>8,967</u>
Improving Teacher Quality State Grants	84.367A				
Fiscal Year 18		3230002 18	-	77,087	15,378
Fiscal Year 19		3230002 19	-	78,867	63,522
					<u>78,900</u>
Title IV Part A	84.424A				
Fiscal Year 19		3420002 19	-	48,657	26,077
Fund for the Improvement of Education	84.215G				
Fiscal Year 18		610C	-	N/A	207,889
Rural Education	84.358B				
Fiscal Year 19		3140002 19	-	16,596	16,275
Passed Through Kentucky Valley Educational Cooperative					
Race to the Top - District	84.416A				
Fiscal Year 19		B416A140080	-	N/A	78,217
Passed through Berea College					
Gaining Early Awareness and Readiness for Undergraduate Progr	84.334A				
Fiscal Year 18		379D	-	N/A	39,360
Fiscal Year 19		379E	-	N/A	65,498
					<u>104,858</u>
Total US Department of Education					<u>1,261,474</u>
US Department of Health & Human Services					
Passed Through State Department of Education					
Improving Student Health & Academic Achievement	93.981				
Fiscal Year 19		2200001 19	-	14,000	10,827
Total US Department of Health & Human Services					<u>10,827</u>
US Department of Justice					
Passed Through State Department of Education					
Public Safety Partnership & Community Policing Grant	16.710				
Fiscal Year 18		437ES	-	N/A	48,535
Total US Department of Justice					<u>48,535</u>
Total Expenditure of Federal Awards					<u>\$ 1,970,547</u>

* Major Programs

LEE COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2019

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Lee County School District under the programs of the federal government for the year ended June 30, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Lee County School District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

NOTE B – SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represents adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE C – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities received and disbursed. For the year ended June 30, 2019, the District received food commodities totaling \$42,497.

NOTE D – INDIRECT COST RATE

The Lee County School District has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education of the Lee County School District
Beattyville, KY

and the State Committee for School District Audits

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* and the audit requirements prescribed by the Kentucky State Committee for School District Audits, in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit contract and Requirements issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lee County School District, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Lee County School District's basic financial statements, and have issued our report thereon dated November 12, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Lee County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lee County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lee County School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lee County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Lee County School District in a separate letter dated November 12, 2019.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

White & Associates, PSC

Richmond, KY

November 12, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Education of the Lee County School District
Beattyville, KY
and the State Committee of School District Audits

Report on Compliance for Each Major Federal Program

We have audited the Lee County School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Lee County School District's major federal programs for the year ended June 30, 2019. Lee County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Lee County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the audit requirements prescribed by the Kentucky State Committee for School District Audits, in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit contract and Requirements. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Lee County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Lee County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Lee County School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of the Lee County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Lee County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of

internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Lee County School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

White & Associates, PSC

Richmond, KY

November 12, 2019

LEE COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS & QUESTIONED COSTS
 Year Ended June 30, 2019

SUMMARY OF AUDITORS' RESULTS

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed? If so, was any significant deficiencies material (GAGAS)?	None Reported N/A
Was any material noncompliance reported (GAGAS)?	No
Were there material weaknesses in internal control disclosed for major programs?	No
Were there any significant deficiencies in internal control disclosed that were not considered to be material weaknesses?	None Reported
What type of report was issued on compliance for major programs?	Unmodified
Did the audit disclose findings as it relates to major programs that Is required to be reported as described in the Uniform Guidance?	No
Major Programs	Title I Grants [CFDA 84.010A]
Dollar threshold of Type A and B programs	\$750,000
Low risk auditee?	Yes

FINDINGS - FINANCIAL STATEMENT AUDIT

No findings at the financial statement level.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

No findings at the major federal award programs level.

LEE COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

There were no prior year findings.

MANAGEMENT LETTER POINTS

Lee County School District
Beattyville, Kentucky

In planning and performing our audit of the financial statements of the Lee County School District for the year ended June 30, 2019, we considered the District's internal controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the District's internal control in our report dated November 12, 2019. This letter does not affect our report dated November 12, 2019, on the financial statements of the Lee County School District. The conditions observed are as follows:

LEE COUNTY ELEMENTARY

1-19

Statement of Condition: Instances of the vendor invoice or Standard Invoice not having a confirmation signature of the person receiving the goods or services before the payment was processed.

Recommendation for Correction: After receiving the product or service, the person receiving the goods or service shall sign the original invoice or Standard Invoice before the school treasurer processes the invoice for payment.

Management Response to the Recommendation: All standard and vendor invoices will be signed by the person receiving the products or services. School treasurer and/or principal will make sure a signature is present on the invoice before payment is processed in the future.

LEE COUNTY HIGH SCHOOL

No conditions.

LEE COUNTY HIGH SCHOOL CHARITABLE GAMING ACCOUNT

No conditions.

Condition 1-19 is a repeat condition from the prior year. All prior year conditions were corrected. Ms. Sarah Wasson, Superintendent, is the person responsible for

initiation of the corrective action plan for the above conditions which will be implemented immediately. The corrective action plan is the management response for each condition.

We would like to thank the Finance Officer and their department for their support and assistance during our audit.

This report is intended solely for the information and use of the Board of Education, management, and others within the district and is not intended to be and should not be used by anyone other than these specified parties.

White & Associates, PSC

White & Associates, PSC
Richmond, Kentucky
November 12, 2019